NDLAMBE LOCAL MUNICIPALITY
Audited Annual Financial Statements
for the year ended 30 June 2017

General Information

Legal form of entity	Ndlambe Municipality (EC 105) is a local municipality performing the functions as set out in the Constitution. (Act no 108 of 1996)
Nature of business and principal activities	Local Government
Mayoral committee	As at year end
Executive Mayor	Councillor PP Faxi
Speaker	Councillor NV Maphaphu
Executive Councillors	Councillor T Mazana - Infrastructure Portfolio Councillor N Xhasa - Community Protection Portfolio Councillor LR Schenk - Finance and Corporate Services Portfolio
Councillors	Councillor TM Mbunge Councillor N Ngamlashe Councillor A Ngqoshe Councillor CB James Councillor AL Merasi Councillor M Raco Councillor JP Guest Councillor MW Yali Councillor ME Njibana Councillor M Mateti Councillor K Daweti Councillor PY Kani Councillor GG Cannon - (deceased) Councillor L Shahzad Councillor S Venene Councillor TD Mbekela
Accounting Officer	R Dumezweni
Business address	47 Campbell Street Port Alfred 6170
Postal address	P O Box 13 Port Alfred 6170
Bankers	First National Bank
Auditors	Auditor General
Jurisdiction	The Ndlambe Local Municipality includes the following areas: Port Alfred Bathhurst Alexandria Kenton-on-Sea Cannon - Rocks

AUDITOR - GENERAL
SOUTH AFRICA
30 NOV 2017

Index

The reports and statements set out below comprise the audited annual financial statements presented to the provincial legislature:

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
MSIG	Municipal Systems Improvement Grant
FMG	Finance Management Grant

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the audited annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the audited annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the audited annual financial statements and was given unrestricted access to all financial records and related data.

The audited annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The audited annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the audited annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2018 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The audited annual financial statements set out on pages 4 to 83, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2017 and were signed on its behalf by:

R Dumezweni
Accounting Officer

AUDITOR - GENERAL
SOUTH AFRICA
30 NOV 2017

Ndlambe Local Municipality
Audited Annual Financial Statements for the year ended 30 June 2017

Statement of Financial Position as at 30 June 2017

Figures in Rand	Note(s)	2017	2016 Restated*
Assets			
Current Assets			
Inventories	3	542 607	724 378
Receivables from non-exchange transactions	4	16 075 795	12 740 416
Receivables from exchange transactions	5	20 970 597	20 799 126
Cash and cash equivalents	6	48 847 085	31 355 566
Operating lease asset	7	315 334	354 437
		86 751 418	**65 973 923**
Non-Current Assets			
Investment property	8	187 608 291	189 464 492
Property, plant and equipment	9	601 833 033	597 714 896
Intangible assets	10	2 319 806	300 736
Heritage assets	11	16	16
Other financial assets	12	119 181	141 525
		791 880 327	**787 621 665**
Total Assets		**878 631 745**	**853 595 588**
Liabilities			
Current Liabilities			
Consumer deposits	14	1 883 801	1 749 301
Payables from exchange transactions	15	41 429 624	45 791 321
Unspent conditional grants and receipts	16	14 929 360	6 423 625
VAT payable	17	4 584 121	5 608 242
Financial liabilities - DBSA	18	1 728 229	1 990 300
Operating lease liability	7	73 649	55 134
Employee benefit obligation	19	1 991 381	1 815 300
Provisions	20	11 808 490	11 089 223
		78 428 655	**74 522 446**
Non-Current Liabilities			
Financial liabilities - DBSA	18	12 186 579	13 891 090
Employee benefit obligation	19	58 832 239	59 033 541
Provisions	20	23 456 722	20 315 910
		94 475 540	**93 240 541**
Total Liabilities		**172 904 195**	**167 762 987**
Net Assets		**705 727 550**	**685 832 601**
Accumulated surplus		705 727 549	685 832 601

AUDITOR - GENERAL
SOUTH AFRICA
30 NOV 2017

* See Note 46

Statement of Financial Performance

Figures in Rand	Note(s)	2017	2016 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	22	111 487 289	101 336 767
Rendering of services		221 306	215 266
Rental of facilities and equipment		719 955	773 841
Licences and permits		3 812 172	4 023 419
Rental income		-	2 464
Housing debtor income		773 119	493 801
Other income	24	2 657 468	2 710 360
Interest received - investment	26	3 085 525	2 068 403
Interest received - trade and other receivables		6 728 717	6 501 972
Total revenue from exchange transactions		**129 485 551**	**118 126 293**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	21	83 109 186	76 535 933
Transfer revenue			
Government grants & subsidies	23	130 467 350	116 603 684
Contributions and donations	25	2 863 247	-
Fines, Penalties and Forfeits		470 290	455 795
Total revenue from non-exchange transactions		**216 910 073**	**193 595 412**
Total revenue	27	**346 395 624**	**311 721 705**
Expenditure			
Employee related costs	28	(118 877 348)	(122 051 164)
Remuneration of councillors	29	(6 050 938)	(5 959 606)
Depreciation and amortisation	30	(36 510 210)	(36 292 326)
Impairment loss/ Reversal of impairments		(684 962)	-
Finance costs	31	(1 694 965)	(2 011 577)
Lease rentals on operating lease		(2 050 916)	(2 811 784)
Debt Impairment	32	(22 147 729)	(15 053 182)
Repairs and maintenance		(14 241 469)	(13 045 222)
Bulk purchases	34	(52 741 887)	(50 510 103)
Contracted services		(17 910 322)	(18 156 514)
Renewable Energy Programmes		(3 801 752)	(3 676 115)
Transfers and Subsidies	35	(936 097)	(830 173)
General Expenses	36	(43 667 815)	(43 873 227)
Total expenditure		**(321 316 410)**	**(314 270 993)**
Operating surplus (deficit)		**25 079 214**	**(2 549 288)**
Loss on disposal of assets and liabilities		(2 022 928)	(1 358 954)
Fair value adjustments	37	(3 161 342)	(7 241 569)
		(5 184 270)	**(8 600 523)**
Surplus (deficit) for the year		**19 894 944**	**(11 149 811)**

AUDITOR - GENERAL SOUTH AFRICA
3 0 NOV 2017

* See Note 46

Statement of Changes in Net Assets

Figures in Rand		Accumulated surplus	Total net assets
Opening balance as previously reported		699 315 822	699 315 822
Adjustments			
Correction of errors	46	(2 333 410)	(2 333 410)
Balance at 01 July 2015 as restated*		**696 982 412**	**696 982 412**
Changes in net assets			
Surplus for the year		(11 149 811)	(11 149 811)
Total changes		(11 149 811)	(11 149 811)
Restated* Balance at 01 July 2016		**685 832 605**	**685 832 605**
Changes in net assets			
Surplus for the year		19 894 944	19 894 944
Total changes		19 894 944	19 894 944
Balance at 30 June 2017		**705 727 549**	**705 727 549**
Note(s)			

* See Note 46

Cash Flow Statement

Figures in Rand	Note(s)	2017	2016 Restated*
Cash flows from operating activities			
Receipts			
Rates and services		172 671 241	165 768 648
Government Grants and Subsidies		130 467 350	116 603 684
Interest income		9 814 242	8 570 375
Other receipts		3 900 877	3 659 956
		316 853 710	294 602 663
Payments			
Employee costs		(124 928 287)	(128 010 771)
Suppliers		(130 135 475)	(127 300 923)
Finance costs		(1 694 965)	(2 011 577)
		(256 758 727)	(257 323 271)
Net cash flows from operating activities	38	**60 094 983**	**37 279 392**
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(38 102 182)	(30 746 090)
Purchase of other intangible assets	10	(2 534 700)	(5 248)
Net cash flows from investing activities		**(40 636 882)**	**(30 751 338)**
Cash flows from financing activities			
Repayment of financial liabilities - DBSA		(1 966 579)	(3 893 361)
Net cash flows from financing activities		**(1 966 579)**	**(3 893 361)**
Net increase/(decrease) in cash and cash equivalents		**17 491 522**	**2 634 693**
Cash and cash equivalents at the beginning of the year		31 355 566	28 720 873
Cash and cash equivalents at the end of the year	6	**48 847 088**	**31 355 566**

AUDITOR - GENERAL
SOUTH AFRICA
3 0 NOV 2017

* See Note 46

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference - final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	108 475 838	(2 648 482)	105 827 356	111 487 289	5 659 933	48.1
Rendering of services	247 316	-	247 316	221 306	(26 010)	48.2
Rental of facilities and equipment	1 308 706	-	1 308 706	719 955	(588 751)	48.3
Licences and permits	3 665 443	-	3 665 443	3 812 172	146 729	48.4
Rental income	6 026	-	6 026		(6 026)	48.5
Housing debtor income	3 211 146	-	3 211 146	773 119	(2 438 027)	48.3
Other income	(124 899)	2 868 102	2 743 203	2 657 468	(85 735)	48.6
Interest received - investment	625 818	-	625 818	3 085 525	2 459 707	48.7
Interest-trade&other receivables	6 822 443	-	6 822 443	6 728 717	(93 726)	48.7
Total revenue from exchange transactions	124 237 837	219 620	124 457 457	129 485 551	5 028 094	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	94 617 170	-	94 617 170	83 109 186	(11 507 984)	48.8
Transfer revenue						
Government grants & subsidies	134 253 929	11 602 429	145 856 358	130 467 350	(15 389 008)	48.9
Contributions and donations	-	-	-	2 863 247	2 863 247	48.10
Fines, Penalties and Forfeits	368 600	-	368 600	470 290	101 690	48.11
Total revenue from non-exchange transactions	229 239 699	11 602 429	240 842 128	216 910 073	(23 932 055)	
Total revenue	353 477 536	11 822 049	365 299 585	346 395 624	(18 903 961)	
Expenditure						
Personnel	(116 060 544)	(4 998 647)	(121 059 191)	(118 877 348)	2 181 843	48.12
Remuneration of councillors	(5 965 886)	-	(5 965 886)	(6 050 938)	(85 052)	48.13
Alternative energy programmes	(1 979 342)	-	(1 979 342)	(3 801 752)	(1 822 410)	48.14
Depreciation and amortisation	(4 640 998)	-	(4 640 998)	(36 510 210)	(31 869 212)	48.15
Impairment loss/ Reversal of impairments		-	-	(684 962)	(684 962)	48.16
Finance costs	(1 952 090)	-	(1 952 090)	(1 694 965)	257 125	48.17
Lease rentals on operating lease	(3 357 488)	308 000	(3 049 488)	(2 050 916)	998 572	48.18
Debt Impairment	(14 351 089)	-	(14 351 089)	(22 147 729)	(7 796 640)	48.19
Repairs and maintenance	(34 037 719)	4 839 370	(29 198 349)	(14 241 469)	14 956 880	48.20
Bulk purchases	(58 567 286)	10 000	(58 557 286)	(52 741 887)	5 815 399	48.21
Contracted Services	(18 754 986)	(310 541)	(19 065 527)	(17 910 322)	1 155 205	48.22
Transfers and Subsidies	(1 167 250)	250 000	(917 250)	(936 097)	(18 847)	48.23
General Expenses	(57 758 639)	(174 617)	(57 933 256)	(43 667 815)	14 265 441	48.24
Total expenditure	(318 593 317)	(76 435)	(318 669 752)	(321 316 410)	(2 646 658)	
Loss on disposal of assets	167 780	-	167 780	(2 022 928)	(2 190 708)	48.25
Fair value adjustments	6 067	-	6 067	(3 161 342)	(3 167 409)	48.26
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	35 058 066	11 745 614	46 803 680	19 894 944	(26 908 736)	

AUDITOR - GENERAL
SOUTH AFRICA
30 NOV 2017

Accounting Policies

1. Presentation of Audited Annual Financial Statements

The audited annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These audited annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these audited annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency & rounding

These audited annual financial statements are presented in South African Rand, which is the functional currency of the municipality.
Amounts are rounded to the nearest Rand.

1.2 Going concern assumption

These audited annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the audited annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the audited annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the audited annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

AUDITOR - GENERAL
SOUTH AFRICA

30 NOV 2017

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

The carrying amount of available-for-sale financial assets would be an estimated R - lower or R - higher were the discounted rate used in the discount cash flow analysis to differ by 10% from management's estimates.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 20 - Provisions.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

AUDITOR - GENERAL
SOUTH AFRICA

30 NOV 2017

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 19.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	30 years

AUDITOR - GENERAL
SOUTH AFRICA
30 NOV 2017

Accounting Policies

1.4 Investment property (continued)

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

The municipality discloses relevant information relating to assets under construction or development, in the notes to the audited annual financial statements (see note).

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for X,X and X which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

AUDITOR - GENERAL
SOUTH AFRICA
3 0 NOV 2017

Accounting Policies

1.5 Property, plant and equipment (continued)

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land		Indefinite
Buildings	Straight line	50 Years
Plant and machinery	Straight line	15 Years
Motor vehicles	Straight line	5 - 15 Years
Office equipment	Straight line	3 - 5 Years
IT equipment	Straight line	3 - 5 Years
Community	Straight line	10 - 30 Years
Electricity Network	Straight line	20 -30 Years
Roads	Straight line	20 Years
Wastewater network	Straight line	20 Years
Water network	Straight line	20 Years

1.5 Property, plant and equipment (continued)

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

1.6 Intangible assets

An asset is identifiable if it either:

* is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
* arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

1.6 Intangible assets (continued)

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software, other	Straight line	3 Years

1.7 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the audited annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

Accounting Policies

1.7 Heritage assets (continued)

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

AUDITOR - GENERAL
SOUTH AFRICA

30 NOV 2017

1.8 Financial Instruments (continued)

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Accounting Policies

1.8 Financial Instruments (continued)

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents (funds and call accounts)	Financial asset measured at amortised cost
Cash and cash equivalents (notice accounts)	Financial asset measured at amortised cost
Other financial assets	Financial asset measured at fair value

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables	Financial liability measured at amortised cost
DBSA Loan	Financial liability measured at amortised cost

AUDITOR - GENERAL
SOUTH AFRICA
30 NOV 2017

Accounting Policies

1.8 Financial instruments (continued)

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

1.8 Financial Instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Accounting Policies

1.8 Financial Instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

1.8 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the .

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

Accounting Policies

1.10 Inventories (continued)

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.11 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:
- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:
- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

1.11 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.12 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Accounting Policies

1.12 Impairment of non-cash-generating assets (continued)

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.12 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.13 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:
- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:
- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Accounting Policies

1.13 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

1.13 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:
- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:
- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the audited annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

Accounting Policies

1.13 Employee benefits (continued)

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

1.14 Provisions and contingencies

Provisions are recognised when:

* the municipality has a present obligation as a result of a past event;
* it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
* a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

* has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
* has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

* necessarily entailed by the restructuring; and
* not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

* the amount that would be recognised as a provision; and
* the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 40.

Accounting Policies

1.14 Provisions and contingencies (continued)

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.11 and 1.12.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

1.14 Provisions and contingencies (continued)

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.15 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

1.15 Revenue from exchange transactions (continued)

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.16 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

1.16 Revenue from non-exchange transactions (continued)

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

1.16 Revenue from non-exchange transactions (continued)

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

1.17 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.18 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.19 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.20 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -
(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

1.22 Irregular expenditure (continued)

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.23 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2016/07/01 to 2017/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The audited annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.24 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.25 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

Accounting Policies

1.25 Events after reporting date (continued)

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.26 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of cash. A commitment is disclosed to the extent that it has not already been recognised elsewhere in the financial statements.

At the end of the financial period the municipality determined commitments in respect of capital expenditure in terms of GRAP 17 that has been approved and contracted for.

1.27 Material losses (Water and Electricity)

Water and electricity losses are required to be disclosed as part of the material loss disclosure of the MFMA Section 125. Losses are calculated on the following basis -

Nr of units of lost supply, being the difference between what was supplied and what has been sold at the per unit tariff rate.

The unit tariff rate, in the case of electricity being the lower rate of Kwh as charged per council and the case of water the lowest rate per Kl (incl VAT).

Notes to the Audited Annual Financial Statements

Figures in Rand	2017	2016

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 108: Statutory Receivables	01 April 2016	The adoption of this has not had a material impact on the results of the company, but has resulted in more disclosure than would have previously been provided in the financial statements
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2016	The impact of the is not material.
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2016	The impact of the is not material.
• GRAP 17 (as amended 2015): Property, Plant and Equipment	01 April 2016	The adoption of this has not had a material impact on the results of the company, but has resulted in more disclosure than would have previously been provided in the financial statements
• GRAP 16 (as amended 2015): Investment Property	01 April 2016	The adoption of this has not had a material impact on the results of the company, but has resulted in more disclosure than would have previously been provided in the financial statements

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2017 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 20: Related parties	01 April 2017	Unlikely there will be a material impact
• GRAP 26 (as amended 2015): Impairment of cash-generating assets	01 April 2017	Unlikely there will be a material impact
• GRAP 109: Accounting by Principals and Agents	01 April 2017	Unlikely there will be a material impact
• GRAP 21 (as amended 2015): Impairment of non-cash-generating assets	01 April 2017	Unlikely there will be a material impact
• GRAP 18: Segment Reporting	01 April 2017	Unlikely there will be a material impact

Figures in Rand	2017	2016

3. Inventories

Electrical spares	1 164	3 216
Game	57 000	57 000
Maintenance materials	78 316	134 751
Water	140 710	82 486
Stores, materials and fuels	265 417	446 925
	542 607	**724 378**

No inventories were written down to net realisable value.

Game is held for recreational purposes in the form of viewing of game at the reserves by the public. These animals are held for the enjoyment of the public and not for resale. It is not the intention of the municipality to trade in wildlife and as such these animals have not been recognised as Biological assets. Game is measured at the lower of cost or current replacement cost.

4. Receivables from non-exchange transactions

Rates	33 774 896	28 380 471
Environmental levies	3 171 953	3 037 594
Deposits	70 500	70 500
Recoverable legal expenses	207 437	207 437
Staff taxes to SARS refundable	281 121	281 121
Recoverable fruitless and wasteful expenditure	119 058	119 058
Prepaid expenses	579 490	30 344
Housing sundry	62 534	215
Provision for Impairment - Non exchange receivables	(22 191 194)	(19 386 324)
	16 075 795	**12 740 416**

The deposits are made up of an amount of R58 000 paid to Eskom for street lighting and R12 500 paid to Kenton on Sea Garage for a petrol deposit.

Fruitless and wasteful expenditure comprises of an amount refundable from NG Ngesi, former Municipal Manager, for the acknowledgement of debt made by him for laptops paid for by the municipality but never delivered.

Receivables from non-exchange transactions past due but not impaired

Receivables from non-exchange transactions which are past due but are not considered to be impaired as at 30 June 2017 are R 10 935 931 (2016: R 9 820 255) .

Reconciliation of provision for impairment of trade and other receivables

Opening balance	(19 386 324)	(22 847 943)
Reversals/(Contributions) to allowance for impairment	(4 278 622)	(195 837)
Bad debts written off against allowance	1 473 752	3 657 456
	(22 191 194)	**(19 386 324)**

None of the financial assets have been renegotiated in the past financial year.

Figures in Rand	2017	2016

5. Receivables from exchange transactions

Gross balances		
Electricity	12 326 567	12 572 589
Water	22 604 071	20 285 713
Waste water	1 571 641	1 259 604
Sewerage	9 958 182	8 799 645
Refuse	11 311 674	9 977 671
Housing rental	555 898	303 162
Service charges and other	8 377 613	8 699 021
	66 705 646	**61 897 405**

Less: Allowance for impairment		
Impairment allowance	(45 735 049)	(41 098 279)

Net balance		
Electricity	12 326 567	12 572 589
Water	22 604 071	20 285 713
Waste water	1 571 641	1 259 604
Sewerage	9 958 182	8 799 645
Refuse	11 311 674	9 977 671
Housing rental	555 898	303 162
Service charges and other	8 377 613	8 699 021
Impairment allowance	(45 735 049)	(41 098 279)
	20 970 597	**20 799 126**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(41 098 279)	(40 390 150)
Contributions to allowance	(19 708 409)	(14 861 183)
Debt impairment written off against allowance	15 071 639	14 153 054
	(45 735 049)	**(41 098 279)**

Consumer debtors past due but not impaired

Consumer debtors which are past due but are not considered to be impaired as at 30 June 2017 are, R 14 121 898 (2016: R 13 794 623).

Consumer debtors impairment process

In estimating the provision for debt impairment a means test was performed. The test entailed plotting each debtor's outstanding amount (including their payment history over the past financial year) and physical address on a GIS system. The following type of debtors were eliminated from the calculation:

- Indigents - these were impaired in full
- All government related debt - these should all be recoverable
- Debtors paying within 30 days - these were not considered to be doubtful
- Debtors settling their accounts monthly, although late - these were not considered to be doubtful
- Debtors with properties in affluent suburbs - these debtors are able to settle their accounts and were not considered to be doubtful

The outstanding amounts after the elimination of the above were considered to be impaired and were included in the provision for bad debt impairment.

Figures in Rand		2017	2016

6. Cash and cash equivalents

Cash and cash equivalents consist of:

	2017	2016
Cash on hand	5 211	5 211
Bank balances	9 354 834	7 223 029
Short-term deposits	39 487 040	24 127 326
	48 847 085	**31 355 566**

Cession & Guarantees over Cash and cash equivalents

		2017	2016
Total financial assets ceded to DBSA There is a cession recorded against this account (FNB-71078484865) to this value. Refer to note regarding DBSA loans.	See Note: 18	3 050 600	3 050 600
FNB Guarantee The municipality has a guarantee with FNB in favour of the Department of Mineral and Energy Affairs.		45 622	45 622
Eskom Guarantee The municipality has a guarantee with Eskom in favour of the Department of Minerals and Energy Affairs.		1 024 929	1 024 929

6. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances 30 June 2017	Bank statement balances 30 June 2016	Bank statement balances 30 June 2015	Cash book balances 30 June 2017	Cash book balances 30 June 2016	Cash book balances 30 June 2015
FIRST NATIONAL BANK General Account-Current	5 385 990	3 136 559	3 993 015	5 725 507	3 600 787	8 363 961
FIRST NATIONAL BANK Current Account - Housing	3 259 025	3 321 395	1 152 054	3 259 025	3 321 395	1 606 071
FIRST NATIONAL BANK Current Account- Revolving	370 302	300 847	226 861	370 302	300 847	226 861
FIRST NATIONAL BANK Call account- CRR	9 169 571	5 463 843	3 450 668	9 169 571	5 463 843	3 450 068
FIRST NATIONAL BANK Fixed Deposit Account- DBSA	3 124 438	3 124 438	3 124 438	3 124 438	3 124 438	3 124 438
FIRST NATIONAL BANK Call Account - Eskom	3 139 594	3 139 594	3 139 594	3 139 594	3 139 594	3 139 594
STANDARD BANK Notice Account	163 510	153 685	145 361	163 510	153 685	145 361
STANDARD BANK Call Account- 004	41	1 290	-	41	1 290	-
STANDARD BANK Call Account-003	431 308	28 332	-	431 308	28 790	-
STANDARD BANK Call Account-006	331 026	1 140 011	-	331 026	1 140 011	-
STANDARD BANK Call Account -007	4 433	675 000	-	4 433	675 000	-
INVESTEC BANK Call Account- Intern 502	5 574 874	4 136 047	1 950 924	5 574 874	4 136 047	1 950 924
INVESTEC BANK Call Account - FMG 503	-	345	101 924	-	-	101 924
INVESTEC BANK Call Account - Essential Oil 504	175 420	329 260	319 056	175 420	329 260	319 056
INVESTEC BANK Call Account -Vuna 505	-	2 840	2 840	-	2 840	2 840
INVESTEC BANK Call Account - Chicory 506	447 619	895 564	1 194 637	447 619	895 564	1 194 637
INVESTEC BANK Call Account - MSIG 507	-	-	706	-	-	706
INVESTEC BANK Call Account - DME 509	-	-	3 133	-	-	3 133
INVESTEC BANK Call Account- IDP Process 510	13 818	13 818	18 036	13 818	13 818	18 064
INVESTEC BANK Call Account- EC Sport 511	2 766 919	3 735 375	3 272 562	2 766 919	3 735 375	3 272 562
INVESTEC BANK Call Account - LG SETA 512	179 777	22 364	16 771	179 777	22 364	16 771
INVESTEC BANK Call Account - Fire Officer 513	-	-	3 387	-	-	3 387
INVESTEC BANK Call Account - EPWP 514	158 361	8 355	44 664	158 361	8 355	44 664
INVESTEC BANK Call Account - LED Sec Ass 515	528	528	4 730	528	528	4 730
INVESTEC BANK Call Account - MIG Sewer 517	-	824 243	1 209 299	-	824 243	1 209 299
INVESTEC BANK Call Account - MIG Sport 518	-	17 733	12 473	-	17 733	12 473
INVESTEC BANK Call Acc - Water Cons Audit 521	-	192	192	-	192	192
INVESTEC BANK	-	6 640	4 381	-	6 640	4 381

6. Cash and cash equivalents (continued)

Call Account - PMU 522						
INVESTEC BANK	707 348	188 464	200 082	707 348	188 464	200 082
Call Account - PrepWatMete523						
INVESTEC BANK	44 629	52 082	131 608	44 629	52 082	131 608
Call Account - LED Initia 524						
INVESTEC BANK	-	167 168	167 401	-	167 168	167 401
Call Account - GreenestTwn 525						
INVESTEC BANK	420 896	-	-	420 896	-	-
Call Account - Retention						
STANDARD BANK	278 971	-	-	278 971	-	-
Call Account - Fire Officer 008						
STANDARD BANK	106 504	-	-	106 504	-	-
Call Account - Upgrad Road 009						
Call Account - Bat Water 010						
STANDARD BANK	6 154	-	-	6 154	-	-
Call Acc- Bathurst Sport 011						
STANDARD BANK	65	-	-	65	-	-
Call Account - PMU 012						
STANDARD BANK	240 147	-	-	240 147	-	-
Call Account - INEG 014						
STANDARD BANK	11 820 713	-	-	11 820 713	-	-
Call Account - Upgrade Rds 015						
STANDARD BANK	180 377	-	-	180 377	-	-
Call Account - LED Mobile 016						
Total	**48 502 358**	**30 886 012**	**23 890 797**	**48 841 875**	**31 350 353**	**28 715 188**

7. Operating lease assets & liabilities

	2017	2016
Current assets	315 334	354 437
Current liabilities	(73 649)	(55 134)
	241 685	**299 303**

Operating lease liabilities result from operating leases where the municipality is the lessee and have straight lined the rental expenditure over the period of the lease in accordance with GRAP 13.

Operating lease assets result from operating leases where the municipality is the lessor and have straight lined the rental income over the period of the lease in accordance with GRAP 13. Refer to note 39 for disclosure in terms of GRAP 13 future minimum cashflows.

Notes to the Audited Annual Financial Statements

Figures in Rand	2017	2016

8. Investment property

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	156 597 000	-	156 597 000	157 280 000	-	157 280 000
Buildings	34 247 903	(3 236 612)	31 011 291	34 247 903	(2 063 411)	32 184 492
Total	**190 844 903**	**(3 236 612)**	**187 608 291**	**191 527 903**	**(2 063 411)**	**189 464 492**

Reconciliation of investment property - 2017

	Opening balance	Disposals	Depreciation	Total
Land	157 280 000	(683 000)	-	156 597 000
Buildings	32 184 492	-	(1 173 201)	31 011 291
	189 464 492	**(683 000)**	**(1 173 201)**	**187 608 291**

Reconciliation of investment property - 2016

	Opening balance	Depreciation	Total
Land	157 280 000	-	157 280 000
Buildings	33 360 951	(1 176 459)	32 184 492
	190 640 951	**(1 176 459)**	**189 464 492**

Pledged as security

Carrying value of assets pledged as security:

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal are as follows:

Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements is as follows:

In the exceptional cases when the municipality have to measure investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment when the municipality subsequently uses the fair value measurement, disclose the following:

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and
- on disposal of investment property not carried at fair value:
  - the fact that the entity has disposed of investment property not carried at fair value,
  - the carrying amount of that investment property at the time of sale, and
  - the amount of gain or loss recognised.

Amounts recognised in surplus or deficit

	2017	2016
Rental revenue from Investment property	-	54 596
From Investment property that generated rental revenue		
Repairs and maintenance	4 120	40 019

9. Property, plant and equipment

	2017			2016		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	82 260 691	-	82 260 691	82 260 691	-	82 260 691
Buildings	112 704 643	(33 090 516)	79 614 127	104 282 992	(30 041 112)	74 241 880
Plant and machinery	8 520 489	(5 200 185)	3 320 304	9 679 703	(5 256 690)	4 423 013
Motor vehicles	28 099 659	(18 101 767)	9 997 892	28 938 998	(20 345 383)	8 593 615
Office equipment	8 234 658	(5 259 628)	2 975 030	6 904 474	(4 959 430)	1 945 044
IT equipment	5 007 958	(3 417 381)	1 590 577	4 332 333	(3 128 454)	1 203 879
Electricity Network	144 251 964	(75 568 390)	68 683 574	138 550 210	(72 051 249)	66 498 961
Work in Progress	5 307 378	-	5 307 378	46 148 168	-	46 148 168
Roads	416 687 955	(258 279 163)	158 408 792	402 381 902	(249 794 235)	152 587 667
Wastewater network	180 837 194	(50 813 469)	130 023 725	160 304 835	(45 214 383)	115 090 452
Water network	181 275 321	(121 624 378)	59 650 943	159 749 290	(115 027 764)	44 721 526
Total	**1 173 187 910**	**(571 354 877)**	**601 833 033**	**1 143 533 596**	**(545 818 700)**	**597 714 896**

Notes to the Audited Annual Financial Statements

Figures in Rand

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	WIP Transfer In/(Out)	Depreciation	Impairment loss	Total
Land	82 260 691	-	-	-	-	-	82 260 691
Buildings	74 241 880	1 855 198	-	6 566 481	(3 049 432)	-	79 614 127
Plant and machinery	4 423 013	150 699	(164 539)	-	(1 088 869)	-	3 320 304
Motor vehicles	8 593 615	4 265 468	(615 527)	-	(2 245 664)	-	9 997 892
Office equipment	1 945 044	1 648 494	(28 139)	-	(590 369)	-	2 975 030
IT equipment	1 203 879	838 604	(13 790)	-	(438 116)	-	1 590 577
Electricity network	66 498 961	4 824 561	-	877 193	(3 517 141)	-	68 683 574
Work in Progress	46 148 168	27 381 410	-	(68 222 200)	-	-	5 307 378
Roads	152 587 667	-	(209 714)	16 571 484	(10 540 645)	-	158 408 792
Wastewater network	115 090 452	-	(288 393)	21 078 059	(5 171 431)	(684 962)	130 023 725
Water network	44 721 526	-	(19 826)	23 128 983	(8 179 740)	-	59 650 943
	597 714 896	**40 964 434**	**(1 339 928)**	**-**	**(34 821 407)**	**(684 962)**	**601 833 033**

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	WIP Transfer In/(Out)	Depreciation	Total
Land	82 260 691	-	-	-	-	82 260 691
Buildings	78 440 914	-	(1 344 973)	207 599	(3 061 660)	74 241 880
Plant and machinery	5 247 971	312 954	-	-	(1 137 912)	4 423 013
Motor vehicles	9 785 719	868 196	-	-	(2 060 300)	8 593 615
Office equipment	2 348 395	75 233	(673)	-	(477 911)	1 945 044
IT equipment	1 564 410	147 538	(13 308)	-	(494 761)	1 203 879
Electricity Network	70 511 682	-	-	-	(4 012 721)	66 498 961
Work in Progress	34 536 339	28 213 153	-	(16 601 324)	-	46 148 168
Roads	157 193 519	1 088 903	-	4 712 308	(10 407 063)	152 587 667
Wastewater network	108 145 416	-	-	11 557 573	(4 612 537)	115 090 452
Water network	53 064 693	240 187	-	123 844	(8 707 198)	44 721 526
	603 099 749	**30 946 164**	**(1 358 954)**	**-**	**(34 972 063)**	**597 714 896**

Notes to the Audited Annual Financial Statements

Figures in Rand

9. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2017

	Included within Buildings	Included within Electricity	Included within Roads	Included within Wastewater network	Included within Water network	Total
Opening balance	6 786 102	877 193	213 491	18 621 919	19 649 463	46 148 168
Additions/capital expenditure	1 805 461	-	19 640 289	2 456 140	3 479 520	27 381 410
Transferred to completed items	(6 566 481)	(877 193)	(16 571 484)	(21 078 059)	(23 128 983)	(68 222 200)
	2 025 082	**-**	**3 282 296**	**-**	**-**	**5 307 378**

Reconciliation of Work-in-Progress 2016

	Included within Buildings	Included within Electricity	Included within Roads	Included within Wastewater network	Included within Water network	Total
Opening balance	427 220	877 193	4 712 308	24 359 049	4 380 190	34 755 960
Additions/capital expenditure	6 566 481	-	213 491	5 839 990	15 393 117	28 013 079
Transferred to completed items	(207 599)	-	(4 712 308)	(11 577 120)	(123 844)	(16 620 871)
	6 786 102	**877 193**	**213 491**	**18 621 919**	**19 649 463**	**46 148 168**

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included relating to:

Contracted services	8 719 137
General expenses	5 518 211
	14 237 348

Repairs and maintenance relating to property, plant and equipment

9. Property, plant and equipment (continued)

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Pledged as security

No assets have been pledged as security.

10. Intangible assets

	2017			2016		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software, other	3 320 553	(1 000 747)	2 319 806	785 853	(485 117)	300 736

Reconciliation of intangible assets - 2017

	Opening balance	**Additions**	**Amortisation**	**Total**
Computer software, other	300 736	2 534 700	(515 630)	2 319 806

Reconciliation of intangible assets - 2016

	Opening balance	**Additions**	**Amortisation**	**Total**
Computer software, other	439 291	5 248	(143 803)	300 736

11. Heritage assets

	2017			2016		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Conservation areas	16	-	16	16	-	16

Reconciliation of heritage assets 2017

	Opening balance	**Total**
Conservation areas	16	16

Age and/or condition of heritage assets

The following information relating to age and/or condition of heritage assets is provided for better appreciation:

Figures in Rand	2017	2016

11. Heritage assets (continued)

Restrictions on heritage assets

The heritage assets, disclosed below have restrictions in terms of their disposal due to the fact that they are registered with the National Heritage Council and therefore cannot and will not be disposed of in the course of operations of the municipality.

Carrying value of heritage assets with restrictions:

Conservation areas	16	16
Disposal restriction due to registration at National Heritage Council		

Notes to the Audited Annual Financial Statements

Figures in Rand	2017	2016
12. Other financial assets		
Designated at fair value		
Listed shares	119 181	141 525
Old Mutual shares held at fair value determined as the quoted market value.		
Non-current assets		
Designated at fair value	119 181	141 525

13. Financial instruments disclosure

Categories of financial instruments

2017

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	20 970 597	20 970 597
Other receivables from non-exchange transactions	-	16 075 795	16 075 795
Cash and cash equivalents	-	48 847 085	48 847 085
Other financial assets	119 181	-	119 181
	119 181	**85 893 477**	**86 012 658**

Financial liabilities

	At amortised cost	Total
Payables	41 429 624	41 429 624
Financial liabilities - DBSA	13 914 808	13 914 808
	55 344 432	**55 344 432**

2016

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	20 799 126	20 799 126
Other receivables from non-exchange transactions	-	12 740 416	12 740 416
Cash and cash equivalents	-	31 355 566	31 355 566
Other financial assets	141 525	-	141 525
	141 525	**64 895 108**	**65 036 633**

Financial liabilities

	At amortised cost	Total
Payables	45 791 321	45 791 321
Financial liabilities - DBSA	15 881 390	15 881 390
	61 672 711	**61 672 711**

Figures in Rand	2017	2016

14. Consumer deposits

Electricity	1 547 045	1 463 611
Water	336 756	285 690
	1 883 801	**1 749 301**

15. Payables from exchange transactions

Trade payables	9 686 305	10 632 371
Payments received in advanced	2 128 684	3 101 001
Accrued leave pay	5 010 675	4 689 009
Accrued bonus	2 477 100	2 499 070
Accrued expense	7 480 642	11 088 098
Deposits received	797 685	793 382
Other payables	33 063	26 145
Unidentified direct deposits	1 824 070	1 240 575
Retention monies	1 623 420	1 202 915
SALA Pension Fund	1 263 661	2 051 851
Human Settlements	3 259 025	3 321 395
SAMWU Pension Fund	4 545 561	4 545 561
Overtime Accrual	692 349	597 613
DWAF - ACIP	607 384	2 335
	41 429 624	**45 791 321**

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
IDC Chicory	360 188	854 454
MIG	88 592	-
MIG - Additional allocation	11 628 421	-
MSIG	41	41
LED: Essential Oils	106 439	327 511
EC Sports, Arts and Culture	2 081 257	3 435 256
LG SETA	49 735	19 957
SBDM: Fire Officers	273 071	-
SBDM: IDP Dev Support	2 923	2 923
DME	2 967	506
EPWP: Public Works	3 264	7
FMG	1 660	-
LED: Initiative	44 375	45 352
Ndlambe Waste Management	104 419	1 062 618
LED: Kapriver	2 008	675 000
SBDM: LED:Mobile Computer Project	180 000	-
	14 929 360	**6 423 625**

Movement during the year

Balance at the beginning of the year	6 423 625	9 195 200
Additions during the year	53 744 093	35 067 149
Income recognition during the year	(45 238 358)	(37 838 724)
	14 929 360	**6 423 625**

The nature and extent of government grants recognised in the audited annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

Notes to the Audited Annual Financial Statements

Figures in Rand	2017	2016

16. Unspent conditional grants and receipts (continued)

See note 23 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

17. VAT payable

Tax refunds payables	4 584 121	5 608 242

18. Other financial liabilities

At amortised cost		
DBSA Loan 101161/2 20 years @ 10.89%	5 316 323	5 685 363
DBSA Loan 13478/101 20 years @17%	2 338 729	3 253 044
DBSA Loan 102557/1 15 years @ 8.81%	6 259 756	6 942 983
	13 914 808	**15 881 390**
Total other financial liabilities	**13 914 808**	**15 881 390**
Non-current liabilities		
At amortised cost	12 186 579	13 891 090
Current liabilities		
At amortised cost	1 728 229	1 990 300

19. Employee benefit obligations

Defined benefit plan

The plan is a final salary pension / flat plan or a post employment medical benefit plan.

Post retirement medical aid plan

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(60 848 841)	(49 365 000)
Benefits paid during the year	2 108 094	1 860 551
Current service costs	(3 402 284)	(2 986 000)
Interest Costs	(5 447 924)	(4 586 000)
Actuarial Gain / (Loss)	6 767 335	(5 772 392)
Present value of the defined benefit obligation-wholly unfunded	**(60 823 620)**	**(60 848 841)**
Non-current liabilities	(58 832 239)	(59 033 541)
Current liabilities	(1 991 381)	(1 815 300)
	(60 823 620)	**(60 848 841)**

The municipality's best estimate of the contributions expected to be paid to the plan after reporting date is - 2017: R1 991 381 (2016: R 1 815 300)

Figures in Rand	2017	2016

19. Employee benefit obligations (continued)

Net expense recognised in the statement of financial performance

Current service cost	3 402 284	2 986 000
Interest cost	5 447 924	4 586 000
Actuarial (gains) losses	(6 767 335)	17 659 523
Benefits paid	(2 108 094)	(1 860 551)
	(25 221)	**23 370 972**

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	10.70 %	9.09 %
Expected rate of return on assets (Net discount rate)	1.44 %	0.82 %
Expected rate of return on reimbursement rights	9.13 %	8,19% or CPI+1.5%
Actual return on reimbursement rights	1.44 %	0.82 %
Average retirement age	63	63

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	**One percentage point decrease**
Effect on defined benefit obligation - movement in health care inflation	70 802 215	52 731 638
Effect on Interest costs	7 458 067	5 525 589
Effect on Service costs	3 994 698	2 645 368

Amounts for the current and previous four years are as follows:

	2017 R	**2016 R**	**2015 R**	**2014 R**	**2013 R**
Defined benefit obligation	(60 823 620)	(60 848 841)	(49 365 000)	(47 694 000)	(50 794 000)

Notes to the Audited Annual Financial Statements

Figures in Rand

20. Provisions

Reconciliation of provisions - 2017

	Opening Balance	Fair Value adjustment	Current service costs	Interest costs/Unwinding of interest	Benefits paid	Actuarial gain	Total
Environmental rehabilitation	25 859 842	2 715 283	-	423 715	-	-	28 998 840
Long service awards	5 545 291	-	699 643	433 922	(851 089)	438 605	6 266 372
	31 405 133	**2 715 283**	**699 643**	**857 637**	**(851 089)**	**438 605**	**35 265 212**

Reconciliation of provisions - 2016

	Opening Balance	Fair Value adjustment	Current service costs	Interest costs/Unwinding of interest	Benefits paid	Actuarial gain	Total
Environmental rehabilitation	18 621 727	5 515 605	-	1 722 510	-	-	25 859 842
Long service awards	5 529 000	-	692 000	508 000	(591 000)	(592 709)	5 545 291
	24 150 727	**5 515 605**	**692 000**	**2 230 510**	**(591 000)**	**(592 709)**	**31 405 133**

	2017	2016
Non-current liabilities	23 456 722	20 315 910
- Environmental rehabilitation	17 957 792	15 621 708
- Long service awards	5 498 930	4 694 202
Current liabilities	11 808 490	11 089 223
- Environmental rehabilitation	11 041 048	10 238 134
- Long service awards	767 442	851 089
	35 265 212	**31 405 133**

Figures in Rand	2017	2016

20. Provisions (continued)

Environmental rehabilitation provision

Ndlambe Municipality operates 10 landfill sites which by law will have to be permitted and closed in accordance with the "Minimum Requirements" and in accordance with the Environment Conservation Act. (Act no.73 of 1989) Closure will involve, inter alia, the application of final cover, topsoiling, vegetating, drainage maintenance and leachate management.

Closure of the landfill sites are dependant on a number of external factors, such as amongst others, waste minimisation and population changes. During the prior year there has been a court order to affect the closure of the Bushmens' landfill site, thereby directly affecting the provision estimation as the closure is now projected within the timeframes set out by the court ruling.

Long service awards

Ndlambe Municipality offers long service bonus awards to active employees, the amount of which is dependent on the annual salary of the individual employee. Councillors are not eligible for this benefit and were not taken into account. The award comprises of a percentage of their annual salaries as well as additional leave days to employees at the end of the specified time period.

21. Property rates

Rates received

Property rates	83 109 186	76 535 933

Valuations

All	2 422 774 899	2 641 310 513

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on a monthly basis.

22. Service charges

Sale of electricity	57 185 871	54 956 780
Sale of water	31 736 994	26 790 581
Sewerage and sanitation charges	8 550 045	7 201 341
Refuse removal	13 996 570	12 350 168
Other service charges	17 809	37 897
	111 487 289	**101 336 767**

Notes to the Audited Annual Financial Statements

Figures in Rand	2017	2016

23. Government grants and subsidies

Operating grants		
Unconditional Equitable Share Grant	73 025 000	69 490 000
Unconditional:Equitable share:Cllrs&Ward Contribut	3 799 000	3 612 000
Financial Management Grant	1 707 565	1 442 327
Municipal Systems Improvement Grant(MSIG)	-	929 959
LGSETA Grants	173 630	295 384
Municipal Infrastructure Grant	1 302 700	1 314 466
Environmental Health Subsidy	1 448 686	1 376 252
LED Grants	716 314	423 464
Library Grant (DESRAC)	3 990 253	1 871 254
Accelerated Community Infrastructure Programme	8 713 935	3 188 262
Ec Econ Greenest Town	-	44 885
Sarah Baartman District Municipality(SBDM) Grants	672 992	-
Ndlambe Waste Management Project	1 698 409	-
SBM Unconditional Grant Revenue	8 000	40 000
	97 256 484	**84 028 253**

Capital grants		
Financial Management Grant (Capital)	115 775	357 673
Sarah Baartman District Mun(SBDM) Grants(Capital)	990 928	15 106
EC Economic Ndlambe Wastewater	778 790	74 382
Municipal Infrastructure Grant (Capital)	8 936 096	29 567 198
Intergrated National Elect Grant(INEG)(Capital)	5 497 539	-
Library Grant (DESRAC) (Capital)	113 745	381 232
Accelerated Community Infrastructure Prog(Capital)	-	1 058 452
Expanded Public Works Prog Grant (EPWP) (Capital)	996 743	999 993
Ec Econ Greenest Town	-	121 395
Disaster Floods Grant (Capital)	15 781 250	-
	33 210 866	**32 575 431**
	130 467 350	**116 603 684**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	53 744 093	39 313 863
Unconditional grants received	76 832 000	73 102 000
	130 576 093	**112 415 863**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of R - (2016: R -), which is funded from the grant.

IDC Chicory - LED

Balance unspent at beginning of year	854 454	1 175 026
Conditions met - transferred to revenue	(494 266)	(320 572)
	360 188	**854 454**

Conditions still to be met - remain liabilities (see note 16).

Figures in Rand	2017	2016

23. Government grants and subsidies (continued)

MIG

Balance unspent at beginning of year	-	4 394 669
Current-year receipts	26 054 000	26 487 000
Conditions met - transferred to revenue	(25 648 467)	(29 839 270)
Retentions	(316 941)	(1 042 399)
	88 592	**-**

Conditions still to be met - remain liabilities (see note 16).

MIG - Additional allocation

Current-year receipts	12 000 000	-
Conditions met - transferred to revenue	(371 579)	-
	11 628 421	**-**

Conditions still to be met - remain liabilities (see note 16).

Provide explanations of conditions still to be met and other relevant information.

MSIG

Balance unspent at beginning of year	41	-
Current-year receipts	-	930 000
Conditions met - transferred to revenue	-	(929 959)
	41	**41**

Conditions still to be met - remain liabilities (see note 16).

LED: Essential Oils

Balance unspent at beginning of year	327 511	348 697
Conditions met - transferred to revenue	(221 072)	(21 186)
	106 439	**327 511**

Conditions still to be met - remain liabilities (see note 16).

Funding conditions were to plant essential Oils with special focus on Rose Geranium, Chamomile and Lavender, however this proved to be un-viable and change of scope was requested from the funder (DEDEA) for a more economic viable activity. Chicory was identified and as in the same way with IDC Chicory, funding will be used in soil preparations for the upcoming planting season of chicory in October.

Notes to the Audited Annual Financial Statements

Figures in Rand	2017	2016

23. Government grants and subsidies (continued)

EC Sports/Arts and Culture

Balance unspent at beginning of year	3 435 256	2 950 743
Current-year receipts	2 750 000	2 737 000
Conditions met - transferred to revenue	(4 103 999)	(2 252 487)
	2 081 257	**3 435 256**

Conditions still to be met - remain liabilities (see note 16).

LG SETA

Balance unspent at beginning of year	19 957	14 192
Current-year receipts	203 407	301 149
Conditions met - transferred to revenue	(173 629)	(295 384)
	49 735	**19 957**

Conditions still to be met - remain liabilities (see note 16).

SBDM: Fire Officers

Current-year receipts	1 264 000	-
Conditions met - transferred to revenue	(990 929)	-
	273 071	-

Conditions still to be met - remain liabilities (see note 16).

Provide explanations of conditions still to be met and other relevant information.

SBDM: IDP Dev Support

Balance unspent at beginning of year	2 923	18 029
Conditions met - transferred to revenue	-	(15 106)
	2 923	**2 923**

Conditions still to be met - remain liabilities (see note 16).

DME

Balance unspent at beginning of year	506	506
Current-year receipts	5 500 000	-
Conditions met - transferred to revenue	(5 497 539)	-
	2 967	**506**

Conditions still to be met - remain liabilities (see note 16).

EPWP: Public Works

Balance unspent at beginning of year	7	-
Current-year receipts	1 000 000	1 000 000
Conditions met - transferred to revenue	(996 743)	(999 993)
	3 264	**7**

Conditions still to be met - remain liabilities (see note 16).

Notes to the Audited Annual Financial Statements

Figures in Rand	2017	2016

23. Government grants and subsidies (continued)

FMG

Current-year receipts	1 825 000	1 800 000
Conditions met - transferred to revenue	(1 823 340)	(1 800 000)
	1 660	**-**

Conditions still to be met - remain liabilities (see note 16).

LED: Initiative

Balance unspent at beginning of year	45 352	127 058
Conditions met - transferred to revenue	(977)	(81 706)
	44 375	**45 352**

Conditions still to be met - remain liabilities (see note 16).

Funding was for economic initiatives that seek to improve the livelihood and economic material of the local people. The funding remaining will be used inline with this condition, considering that it is such initiatives that create employment in the area.

Ndlambe Waste Management

Balance unspent at beginning of year	1 062 618	-
Current-year receipts	1 519 000	1 137 000
Conditions met - transferred to revenue	(2 477 199)	(74 382)
	104 419	**1 062 618**

Conditions still to be met - remain liabilities (see note 16).

LED KapRiver

Balance unspent at beginning of year	675 000	-
Current-year receipts	-	675 000
Conditions met - transferred to revenue	(672 992)	-
	2 008	**675 000**

Conditions still to be met - remain liabilities (see note 16).

SBDM: LED Mobile Computer Project

Current-year receipts	180 000	-

Conditions still to be met - remain liabilities (see note 16).

Notes to the Audited Annual Financial Statements

Figures in Rand	2017	2016

24. Other income

Admission fees	28 734	20 765
Building plan fees	1 188 825	1 064 156
Camping fees	328 440	209 827
Encroachments	2 548	2 522
Event application fees	20 738	13 388
Sundry fees	(178 810)	359
Insurance claim refund	307 191	564 027
Refuse bags sold	10 537	16 859
Sundry Income	641 467	569 545
Subdivisions	20 811	13 266
Town planning income	249 411	152 658
Valuation rolls	37 576	82 988
	2 657 468	**2 710 360**

25. Contributions and Donations

Nelson Mandela Bay Municipality - in-kind donation	2 815 055	

During the current financial year the Nelson Mandela Bay Municipality donated 2 fire trucks along with 2-way radios. The donation was recoginised at its fair value.

26. Investment revenue

Interest revenue		
Bank	3 085 525	2 068 403

27. Revenue

Service charges	111 487 289	101 336 767
Property rates	83 109 186	76 535 933
Government grants & subsidies	130 467 350	116 603 684
Rental of facilities and equipment	719 955	773 841
Burial services	221 306	215 266
Licences and permits	3 812 172	4 023 419
Rental income	-	2 464
Other income 1	773 119	493 801
Other income 2	6 728 717	6 501 972
Other income	2 657 468	2 710 360
Interest received - investment	3 085 525	2 068 403
Public contributions and donations	2 863 247	-
Fines, Penalties and Forfeits	470 290	455 795
	346 395 624	**311 721 705**

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	111 487 289	101 336 767
Rendering of services	221 306	215 266
Rental of facilities and equipment	719 955	773 841
Licences and permits	3 812 172	4 023 419
Rental income	-	2 464
Other income 1	773 119	493 801
Other income 2	6 728 717	6 501 972
Other income	2 657 468	2 710 360
Interest received - investment	3 085 525	2 068 403
	129 485 551	**118 126 293**

Figures in Rand	2017	2016

27. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	83 109 186	76 535 933
Transfer revenue		
Government grants & subsidies	130 467 350	116 603 684
Public contributions and donations	2 863 247	-
Fines, Penalties and Forfeits	470 290	455 795
	216 910 073	**193 595 412**

28. Employee related costs

Basic & 13th cheque	72 148 748	69 224 108
Allowances	3 996 189	3 181 829
Post-employment benefits	13 570 895	24 287 212
Medical aid - employer contributions	8 432 080	7 784 420
UIF	739 652	672 081
WCA	421 327	403 962
SDL	931 208	884 013
Leave pay provision charge	321 665	415 918
Overtime payments	10 378 947	9 553 847
Car allowance	2 683 744	2 760 908
Housing benefits and allowances	1 043 648	990 394
Group Insurance	432 967	403 129
Industrial Levy	44 429	43 435
Casuals	3 731 849	1 445 908
	118 877 348	**122 051 164**

Remuneration of Municipal Manager

Annual Remuneration	926 924	957 274
Car Allowance	175 986	175 986
Performance Bonuses	90 419	49 917
Contributions to UIF, Medical and Pension Funds	82 898	203 312
Telephone Allowance	15 535	15 535
13th Cheque	46 047	72 833
Leave pay	59 154	78 645
	1 396 963	**1 553 502**

Remuneration of Chief Finance Officer

Annual Remuneration	554 515	732 979
Car Allowance	126 894	180 861
Performance Bonuses	38 847	41 583
Contributions to UIF, Medical and Pension Funds	155 067	255 285
Telephone Allowance	14 947	21 304
13th Cheque	71 113	55 399
Leave pay	56 976	56 518
	1 018 359	**1 343 929**

Notes to the Audited Annual Financial Statements

Figures in Rand	2017	2016

28. Employee related costs (continued)

Remuneration of Director Infrastructural Development

Annual Remuneration	613 734	552 026
Car Allowance	214 903	240 000
Performance Bonuses	35 118	37 591
Contributions to UIF, Medical and Pension Funds	144 444	203 478
Telephone Allowance	34 935	36 000
13th Cheque	47 407	40 823
Leave pay	22 261	28 326
	1 112 802	**1 138 244**

Remuneration of Director Corporate Services

Annual Remuneration	752 252	684 984
Car Allowance	144 000	144 000
Performance Bonuses	35 034	37 501
Contributions to UIF, Medical and Pension Funds	193 206	234 606
Telephone Allowance	12 000	12 000
13th Cheque	85 793	51 912
Leave pay	78 742	69 143
	1 301 027	**1 234 146**

Remuneration of Director Community Protection Services

Annual Remuneration	495 570	632 062
Car Allowance	138 387	180 000
Performance Bonuses	34 962	37 438
Contributions to UIF, Medical and Pension Funds	146 804	185 526
Telephone Allowance	18 452	24 000
13th Cheque	51 972	47 540
Leave pay	44 498	63 618
	930 645	**1 170 184**

Figures in Rand	2017	2016

29. Remuneration of councillors

Councillors (refer to table below)	6 050 938	5 959 606

Councillors - Existing Council	
Executive Mayor	702 999
Speaker	298 582
Executive Member: T. Mazana	299 948
Executive Member: N. Xhasa	299 948
Executive Member: L.R Schenk	298 434
T.M Mbunge	290 188
N. Ngamlashe	228 912
A. Ngqosha	231 748
C.B James	231 748
A.L Marasi	231 360
M. Raco	231 748
J.P Guest	232 915
M.W Yali	231 541
M.E Njibana	231 748
M. Mateti	231 444
J.M Cowley	68 314
K. Daweti	232 915
P.Y Kani	231 748
G.G Cannon	186 603
L. Shahzad	231 748
S. Venene	144 274
	5 368 865

Councillors - Previous Council		
Executive Mayor	87 684	799 744
Speaker	58 740	355 931
Executive Member: S.B Funde	35 694	334 086
Executive Member: M. Mateti	36 916	334 083
Executive Member: L.R Schenk	36 926	334 996
K.C Ncamiso	33 458	312 950
G.G Cannon	27 482	249 320
T.L.E Khoathani	27 472	248 656
Z. Ngxingo	27 472	248 656
N.T Donile	27 482	249 320
J.P Guest	27 482	249 320
T. Mazana	27 482	249 320
J.M Cowley	27 482	249 320
M.J Tarentaal	26 969	249 235
S. Venene	27 226	249 320
N. Xhasa	27 482	249 320
C. Meterlekamp	27 482	249 320
P.P Faxi	27 523	249 320
M.E Msimang	26 475	248 659
K. Daweti	27 482	248 730
	672 411	**5 959 606**

In-kind benefits

The Mayor is full-time. He is provided with an office and secretarial support at the cost of the Council.

Figures in Rand	2017	2016

29. Remuneration of councillors (continued)

The Mayor has the use of a seperate Council owned vehicle for official duties.

30. Depreciation and amortisation

Property, plant and equipment	34 821 379	34 972 063
Investment property	1 173 201	1 176 460
Intangible assets	515 630	143 803
	36 510 210	**36 292 326**

31. Finance costs

Non-current borrowings	1 694 965	2 011 577

32. Debt impairment

Contributions to debt impairment provision	22 147 729	15 053 182

33. Auditors' remuneration

Fees	3 353 515	4 508 197

34. Bulk purchases

Electricity	41 613 435	39 553 866
Water	11 128 452	10 956 237
	52 741 887	**50 510 103**

35. Grants and subsidies paid

Other subsidies		
Grants and subsidies paid	936 097	830 173

Notes to the Audited Annual Financial Statements

Figures in Rand	2017	2016

36. General expenses

Advertising	295 162	146 395
Auditors remuneration	3 353 515	4 508 197
Bank charges	372 034	345 092
Boat decals	10 400	7 440
Bursaries	133 236	95 360
Campaigns	162 487	72 840
Chemicals	1 287 426	1 456 616
Commission paid	1 550 239	3 047 286
Communication Programmes	32 190	178 973
Consulting and professional fees	745 617	838 678
Donations	181 178	140 005
Election expenses	81 218	8 800
Electricity	7 846 149	8 046 518
Entertainment	97 964	72 913
Environmental levy expense	1 412 245	1 492 205
Flowers	694	750
Fuel and oil	4 896 717	4 553 533
Hire	1 255 251	704 220
IT expenses	49 934	46 584
Insurance	1 799 607	1 758 086
Job creation	778 143	1 216 199
LED SMME Support	544 341	445 449
Motor vehicle expenses	276 022	331 255
Operating Grant Expenditure	4 577	474
Other expenses	3 283 275	1 890 975
PMS review process	-	14 016
Postage and courier	1 182 620	1 018 950
Printing and stationery	369 662	452 322
Refuse	46 148	34 185
Security (Guarding of municipal property)	2 046 193	1 745 759
Special Programmes	256 916	293 189
Staff welfare	9 455	36 288
Stock/Fuel loss	-	16 725
Subscriptions and membership fees	1 271 987	1 135 281
Telephone and fax	2 761 700	2 107 510
Tourism development	516 755	419 737
Training	832 248	910 068
Transport (Workshop)	85 195	58 000
Transport and freight	24 773	16 080
Travel - local	1 933 252	2 153 269
Uniforms	1 465 654	872 984
Valuation expenses	140 526	447 875
Ward Committee fees	176 437	215 601
Water services authority expenditure	72 896	270 074
Water testing	25 777	250 471
	43 667 815	**43 873 227**

37. Fair value adjustments

Other financial assets		
• Old Mutual shares	(22 344)	(3 454)
• FV adjustment to Landfill rehabilitation provision	(3 138 998)	(7 238 115)
	(3 161 342)	**(7 241 569)**

Notes to the Audited Annual Financial Statements

Figures in Rand	2017	2016

38. Cash generated from operations

Surplus (deficit)	19 894 944	(11 149 811)
Adjustments for:		
Depreciation and amortisation	36 510 210	36 292 326
Gain on sale of assets and liabilities	2 022 928	1 358 954
Fair value adjustments	3 161 342	7 241 569
Impairment deficit	684 962	-
Debt impairment	22 147 729	15 053 182
Movements in retirement benefit assets and liabilities	(25 221)	11 483 841
Movements in provisions	698 737	12 837
Receipt of assets - Non-exchange	(2 863 247)	-
Changes in working capital:		
Inventories	182 768	134 555
Receivables from non-exchange transactions	(7 613 969)	(5 364 437)
Receivables from exchange transactions	(18 040 579)	(12 733 876)
Other receivables	61 447	3 839
Payables from exchange transactions	(4 361 697)	(3 339 185)
VAT	(1 024 121)	979 270
Unspent conditional grants and receipts	8 505 735	(2 773 910)
Consumer deposits	134 500	48 568
Lease liability asset	18 515	31 670
	60 094 983	**37 279 392**

39. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	11 628 421	1 824 331
Total capital commitments		
Already contracted for but not provided for	11 628 421	1 824 331

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	875 332	653 289
- in second to fifth year inclusive	404 243	663 669
	1 279 575	**1 316 958**

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

Notes to the Audited Annual Financial Statements

Figures in Rand	2017	2016

39. Commitments (continued)

Operating leases - as lessor (income)

Minimum lease payments due		
- within one year	907 985	457 006
- in second to fifth year inclusive	1 151 023	1 015 222
- later than five years	189 292	181 467
	2 248 300	**1 653 695**

Certain of the municipality's equipment is held to generate rental income. Lease agreements are non-cancellable and have terms from 3 to 20 years. There are no contingent rents receivable.

40. Contingencies

Campbell and Shelton vs Ndlambe LM- The claimant has instituted procedings to suspend all approvals for building development on wetland area in Port Alfred. The financial effect of this cannot be determined.

KOSRA, Bushmans Kariega Estuary Care Management Forum & Natures Landing Homeowners Association vs Ndlambe LM - Legal procedings have been instituted against the municipality regarding the state of the landfill site at Bushmans and to put measures in place to rectify the state of the landfill. The financial effect of this cannot be estimated as the financial claim has not been made.

Agri EC vs Ndlambe Municipality & others - Agric EC has taken Ndlambe Municipality to court to force the municipality to apply its by-laws. This matter is ongoing, but as a financial claim was not made, the financial effect cannot be estimated.

Zimmerman vs Ndlambe Municipality & others- Zimmerman instituted a court case against Ndlambe Municipality relating to the objection to re-zone a specific section of land. The court has ruled in favour of Zimmerman to set aside this re-zoning. At the time of preparation of the annual financial statements no sufficiently reliable estimate of the costs associated with this case could be made. The 3rd and 4rd respondant in this matter is in the process of objecting to this matter.

Litigation is in the process against the municipality relating to various matters. The total estimated potential liability to the municipality at 30 June 2017 is **R1 800 000** (2016: **R1 800 000**).

Contingent assets

Legal procedings have been ongoing in the last number of years relating to royalties payable to council for the Kowie Quarry. The procedings however have not yielded any outcome or resulted in any financial inflows to the municipality. As the matter is still sub judice any amount receivable cannot be assessed as being virtually certain and therefore the amount has not been disclosed as a contingent asset.

41. Going concern

The audited annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

42. Unauthorised expenditure

Opening balance	73 465 843	44 929 488
Unauthorised expenditure incurred during the year	24 134 821	28 536 355
	97 600 664	**73 465 843**

42. Unauthorised expenditure (continued)

EXPENDITURE PER VOTE	2017 Actual	2017 Budget	2017 Variance	2017 Unauthorised
EXECUTIVE AND COUNCIL	42 005 975	35 604 952	6 401 023	6 401 023
MUNICIPAL MANAGER	10 747 250	14 344 993	(3 597 743)	-
FINANCE BUDGET AND TREASURY	18 069 131	20 900 627	(2 831 496)	-
FINANCE - SUPPLY CHAIN	1 473 614	2 100 971	(627 357)	-
CORPORATE SERVICES	13 313 099	13 627 923	(314 824)	-
WASTE MANAGEMENT	17 174 488	17 871 255	(696 767)	-
COMMUNITY AND SOCIAL SERVICES	33 130 005	39 525 506	(6 395 501)	-
HOUSING	6 653 587	9 319 942	(2 666 355)	-
ELECTRICITY	64 720 524	62 423 785	2 296 739	2 296 739
WATER	36 250 809	32 801 986	3 448 823	3 448 823
WASTE WATER MANAGEMENT	18 546 140	12 799 147	5 746 993	5 746 993
TECHNICAL	64 416 061	58 174 818	6 241 243	6 241 243
	326 500 683	**319 495 905**	**7 004 778**	**24 134 821**

EXPENDITURE PER VOTE	2016 Actual	2016 Budget	2016 Variance	2016 Unauthorised
EXECUTIVE AND COUNCIL	49 402 403	35 850 287	13 552 116	13 552 116
MUNICIPAL MANAGER	8 977 232	8 985 059	(7 827)	-
FINANCE BUDGET AND TREASURY	16 451 213	22 632 246	(6 181 033)	-
FINANCE - SUPPLY CHAIN	1 372 046	1 647 023	(274 977)	-
CORPORATE SERVICES	11 086 891	10 004 325	1 082 566	1 082 566
WASTE MANAGEMENT	18 296 084	26 622 033	(8 325 949)	-
COMMUNITY AND SOCIAL SERVICES	33 524 127	37 212 931	(3 688 804)	-
HOUSING	7 585 252	8 999 453	(1 414 201)	-
ELECTRICITY	64 226 870	63 452 478	774 392	774 392
WATER	37 661 830	44 557 351	(6 895 521)	-
WASTE WATER MANAGEMENT	16 320 616	24 683 285	(8 362 669)	-
TECHNICAL	58 966 946	45 839 665	13 127 281	13 127 281
	323 871 510	**330 486 136**	**(6 614 626)**	**28 536 355**

The above unauthorised expenditure has been calculated on the determination of a "vote" as defined the MFMA which states - "vote" means -
(a) one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and
(b) which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.

Note that the Unauthorised expenditure of R27 673 975 was previously reported for 2016 unauthorised expenditure. This amount has been restated according to the above calculation.(overspending on the individual votes). Include particulars of any criminal or disciplinary steps taken as a consequence of above expenditure.

Notes to the Audited Annual Financial Statements

Figures in Rand	2017	2016

43. Irregular expenditure

	2017	2016
Opening balance	284 562 974	214 358 002
Add: Irregular Expenditure - current year	84 028 909	70 204 972
	368 591 883	**284 562 974**

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Supply Chain Management Regulation and/or Policy deviations - Lack of supporting documentation - Deviations not in accordance with S36 of SCM regulations	Items have been referred to MPAC for investigation and the need for criminal procedings to be determined Goods and/or services were received in all instances and none of the payments were made in vain.	84 028 909
		84 028 909

44. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

	2017	2016
Opening balance	1 104 116	998 995
Current year subscription / fee	1 402 011	1 234 681
Amount paid - current year	(1 154 830)	(1 129 560)
	1 351 297	**1 104 116**

Audit fees

	2017	2016
Opening balance	18 530	449 679
Current year expense	3 720 909	4 898 317
Amount paid - current year	(3 712 597)	(5 329 466)
	26 842	**18 530**

PAYE and UIF

	2017	2016
Amount paid - current year	12 745 762	11 545 789

Pension and Medical Aid Deductions

	2017	2016
Amount paid - current year	30 574 593	29 319 212

VAT

	2017	2016
VAT payable	4 584 121	5 608 242

VAT output payables and VAT input receivables are shown in note 17.

All VAT returns have been submitted by the due date throughout the year.

44. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts (i.e. outstanding for longer than 30 days) as at 30 June 2017, including the councillors that had amounts outstanding for more than 90 days:

30 June 2017	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor CB James	1 889	11 195	13 084
Councillor A. Ngqosha	3 355	22 641	25 996
Councillor N Ngamlashe	951	3 645	4 596
Councillor TM Mbunge	1 440	1 662	3 102
Councillor AL Marasi	452	2 203	2 655
Councillor M Mateti	1 503	5 011	6 514
Councillor PY Kani	622	930	1 552
Councillor ME Njibana	1 479	-	1 479
Councillor P Faxi	1 413	-	1 413
Councillor JP Guest	606	-	606
	13 710	**47 287**	**60 997**

30 June 2016	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor P. Faxi	327	869	1 196
Councillor SR Tandani	515	-	515
Councillor JP Guest	529	-	529
	1 371	**869**	**2 240**

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

Incident	2017	2016
S36(1)(a)(i) - Emergency	1 813 804	871 491
S36(1)(a)(ii) - Sole Supplier	480 230	292 038
S36(1)(a)(v) - Impractical / Impossible (other)	30 989 850	14 037 784
	33 283 884	**15 201 313**

Figures in Rand	2017	2016

45. Related parties

Related party balances

Receivables		
Department of Roads and Public Works	401 287	788 092
National Department of Roads and Public Works	833 411	-
Department of Health	312 571	249 521
Department of Rural Development and Agrarian reform	9 855	72 848
Department of Education	1 034 752	746 329
Department of Rural Development and Land Reform	406 454	-

Related party transactions

Revenue		
Department of Health	977 537	687 999
Provincial Department of Roads and Public Works	1 851 482	1 939 108
National Department of Roads and Public Works	1 536 135	1 664 741
Department of Education	715 795	609 974
Department of Rural Development and Agrarian reform	107 223	112 349
Department of Rural Development and Land Reform	133 243	-

46. Prior period errors

During the 2016/17 financial year, the comparative figures for the 2015/16 financial year have been restated in accordance with GRAP 3. The variances in terms of the Statement of Financial Position as well as Statement of Financial Performance have been disclosed below along with reasons for the prior period errors.

The correction of the error(s) results in adjustments as follows:

2016 Closing balance / 2017 Opening balances:

Statement of Financial Position	Previously reported	Adjustment	As restated	Reference
Receivables from Non-exchange Transactions	14 668 278	(1 927 862)	12 740 416	1
Receivables from Exchange Transactions	21 828 069	(1 028 944)	20 799 125	2
Property, plant and Equipment	597 591 302	123 594	597 714 896	3
Payables	(45 215 744)	(575 577)	(45 791 321)	4
Unspent Conditional grants and receipts	(6 488 867)	65 242	(6 423 625)	5
Accumulated surplus	(689 176 148)	3 343 549	(685 832 599)	6
	(106 793 110)	**2**	**(106 793 108)**	

1 - Receivables from Non-Exchange transactions - Statement of Financial Position	
Previously reported 2016 balance	14 668 278
Billing corrections for periods prior to 2016	(1 917 554)
Billing corrections for 2016	(10 312)
Restated 2016 Closing balance	**12 740 412**

2 - Receivables from exchange transactions - Statement of Financial Position	
Previously reported 2016 balance	21 828 069
Billing corrections for periods prior to 2016	(995 531)
Billing corrections for 2016	(28 642)
De-recognition of receivables incorrectly recorded	(4 771)
Restated 2016 Closing balance	**20 799 125**

Figures in Rand	2017	2016

46. Prior period errors (continued)

3 - Property, plant and equipment - Statement of Financial Position

Previously reported 2016 balance		597 591 302
Additional depreciation on asset capitalised from WIP		(104 711)
Correction relating to additional asset identified 2016		8 684
Correction relating to additional asset identified prior to 2016		219 620
Restated 2016 Closing Balance		**597 714 895**

4 - Payables - Statement of Financial Position

Previously reported 2016 balance		(45 215 744)
Understatement of accruals at year end 2016		(875 115)
De-recognition of payables incorrectly recorded		46 761
Correction of retention		255 110
Reclassification of DWAF -ACIP to payables		(2 335)
Restated 2016 Closing Balance		**(45 791 323)**

5 - Unspent Conditional grants and receipts - Statement of Financial Position

Previously reported 2016 balance		(6 488 867)
Reclassification of DWAF -ACIP to payables		2 335
Correction of LED Vuna awards unspent conditional grant not previously recognised		2 839
Correction of DWAF Drought relief unspent conditional grant not previously recognised		34 222
Correction of SBDM Drinking water safety plan unspent conditional grant not previously recognised		14 641
Correction of LED Section assistant unspent conditional grant not previously recognised		528
Correction of SBDM Brickworks Project unspent conditional grant not previously recognised		10 485
Correction of DWAF: Water and Sewer Audit unspent conditional grant not previously recognised		192
Restated 2016 Closing balance		**(6 423 625)**

Figures in Rand	2017	2016

46. Prior period errors (continued)

6 - Accumulated Surplus - Statement of Financial Position

Previously reported 2016 Opening balance		(699 315 822)
Effect of opening balance corrections relating to -		2 333 412
Billing corrections - Receivables from non-exchange transactions		1 917 554
Billing corrections - Receivables from exchange transactions		995 531
Correction relating to additional asset identified prior to 2016		(219 620)
Correction of unspent conditional grant not previously recognised		(62 907)
De-recognition of payables incorrectly recorded		(46 807)
De-recognition of receivables incorrectly recorded		4 771
Correction of retention		(255 110)
RESTATED 2015/16 OPENING BALANCE		(696 982 410)
RESTATED 2015/16 (Surplus)/Deficit		11 149 811
Previously reported deficit		10 139 674
Net corrections as per 2015/16 Statement of Financial Performance (see below)		1 010 137
RESTATED 2015/16 CLOSING BALANCE		**(685 832 599)**

2016 Comparative restatements

Statement of Financial Performance	Previously reported	Adjustment DT/(CT)	As restated	Reference
REVENUE				
Property Rates	76 545 466	9 533	76 535 933	i
Service Charges	101 364 771	28 004	101 336 767	ii
Licences and Permits	3 599 730	(423 689)	4 023 419	iii
Other Income	3 134 049	423 689	2 710 360	iii
Interest Received - Trade and other receivables	8 571 267	2 069 295	6 501 972	iv
Interest received - Investments	-	(2 068 403)	2 068 403	iv
Housing debtor income	-	(493 801)	493 801	iii
Rental of facilities and equipment	1 267 642	493 801	773 841	iii
EXPENDITURE				
Depreciation and Amortisation	(36 187 615)	104 711	(36 292 326)	v
Repairs and Maintenance	(13 036 958)	8 264	(13 045 222)	vi
Bulk purchases	(50 507 651)	2 452	(50 510 103)	vii
Contracted Services	(17 555 843)	600 671	(18 156 514)	viii
Renewable Energy Programme	(3 675 592)	523	(3 676 115)	ix
General Expenses	(43 618 140)	255 087	(43 873 227)	x
	29 901 126	**1 010 137**	**28 890 989**	

i) Property Rates - Statement of Financial Performance

As previously reported	76 545 466
Effects of Billing corrections for 2016	(9 533)
	76 535 933

Figures in Rand	2017	2016

46. Prior period errors (continued)

ii) Service Charges - Statement of Financial Performance

As previously reported		101 364 771
Effect of Billing corrections for 2016		(28 527)
Reclassification of renewable energy programme amounts		523
		101 336 767

iii) Reclassification adjustments - Statement of Financial Performance

Reclassification of River Usage to Licences and permits from other income		423 689
Reclassification of Rental of facilities and equipment to Housing Debtor income		493 801
		917 490

iv) Interest Received - Statement of Financial Performance

As previously stated		8 571 267
Effect of Billing corrections for 2016		(892)
Reclassification of Interest - Investments from Interest received		(2 068 403)
		6 501 972

v) Depreciation and Amortisation - Statement of Financial Performance

As previously reported		(36 187 615)
Additional depreciation due to capitalisation of PPE		(104 711)
		(36 292 326)

vi) Repairs and Maintenance - Statement of Financial Performance

As previously reported		(13 036 958)
Understatement of accruals at year end 2016		(10 284)
Re-classification of repairs and maintenance		2 020
		(13 045 222)

vii) Bulk purchases - Statement of Financial Performance

As previously reported		(50 507 651)
Understatement of accruals at year end 2016		(2 452)
		(50 510 103)

viii) Contracted services - Statement of Financial Performance

As previously reported		(17 555 843)
Understatement of accruals at year end 2016		(600 671)
		(18 156 514)

ix) Renewable Energy Programmes - Statement of Financial Performance

As previously reported		(3 675 592)
Reclassification of renewable energy programme amounts		(523)
		(3 676 115)

Notes to the Audited Annual Financial Statements

Figures in Rand	2017	2016

46. Prior period errors (continued)

x) General Expenses - Statement of Financial Performance

As previously reported	(43 618 139)
Understatement of accruals at year end 2016	(253 021)
Re-classification of repairs and maintenance	(2 020)
Reclassification of accounts	(47)
	(43 873 227)

The following disclosures have been restated:
Irregular expenditure - Note 42
Previous Disclosure

Opening balance - 2016	209 528 697
Add: Irregular Expenditure - current year	29 839 660
	239 368 357

New disclosure

Opening balance - 2016	214 358 002
Add: Irregular Expenditure - current year	70 204 972
	284 562 974

The adjustment to the irregular expenditure in the prior periods are as a result of additional irregular expenditure identified during 2016/17 relating to 2014/15 and 2015/16 after an extensive review process.

Cash flow statement

	As previously reported	Adjustment	Corrected Figures
Cash flow from operating activities			
Receipts			
Rates and Services	165 817 804	(49 156)	165 768 648
Government grants and Subsidies	116 603 684	-	116 603 684
Interest Income	8 571 267	(892)	8 570 375
Other receipts	3 589 844	70 112	3 659 956
Payments			
Employee costs	(128 014 772)	4 001	(128 010 771)
Suppliers	(127 305 089)	4 166	(127 300 923)
Finance costs	(2 011 577)	-	(2 011 577)
	37 251 161	**28 231**	**37 279 392**
Cash flow from investing activities			
Purchase of property, plant and equipment	(30 717 860)	(28 230)	(30 746 090)
Purchase of other intangible assets	(5 248)	-	(5 248)
	-	-	-
	(30 723 108)	**(28 230)**	**(30 751 338)**
Cash flow from financing activities			
Movement in Long term Liabilities	(3 893 360)	-	(3 893 360)
	(3 893 360)	**-**	**(3 893 360)**

Figures in Rand	2017	2016

46. Prior period errors (continued)

The cash flow restatement above details the movements between the previously reported Cash Flow Statement and the restated 2015/16 comparative figures. The reason for the adjustments are due to the individual errors as detailed in note 46 . This can be attributed to cut-off errors on expenditure and service charges.

47. Fruitless and wasteful expenditure

	2017	2016
Opening balance	145 928	39 222
Fruitless and wasteful expenditure - current year	221 880	106 706
	367 808	**145 928**

Fruitless and wasteful expenditure has been incurred due to interest on late payments made as well as penalties incurred on SARS assessments. All of the matters that resulted in fruitless and wasteful expenditure in the current year have been investigated and no criminal or disciplinary steps were taken against any officials.

Procedures and systems' amendments have been affected to avoid instances of fruitless and wasteful expenditure reoccurring.

48. Budget differences

Material differences between budget and actual amounts

Variances are considered to be material for the GRAP 24 variance disclosure where it exceeds 10%.
Below are details of the relevant material variances as per the Statement of Budget versus Actual Comparison:

48.1) Service Charges: Immaterial variances

48.2) Rendering of Services:

The variance of R26 010 represents the income from burial fees being less than the actual final budget. The revenue recognised represents revenue from the sale of burial plots & related burial services. The actual demand was less than the budgeted amount during the year as fewer burials took place.

48.3) Rental of Facilities and Equipment:

The variance is due to inadequate budgeting processes based on incremental budgeting that have resulted in the overstatement of the projected income from the rental of housing and other building rentals.

48.4) Licences and Permits: Immaterial variance

48.5) Rental Income

This is in respect of the chemical toilets that were hired out. The actual demand however related to indigent debtors and hence indigent subsidy was applied and no revenue was recognised for the free basic service.

48.6) Other income: Immaterial variance

48.7) Interest received - Investment

According to the budget assumptions made, grant income would have been spent faster than what materialised, resulting in less interest earned on investments. Additional grants were also received over and above the original budget. Additional interest income (over and above budgeted amounts) was realised on the grant investments due to timing delays in the spending of grant funding.

48.8) Property Rates

During the budgeting process the income foregone budget was reduced to decrease the increase in rates that ratepayers would be required to pay had income foregone been correctly budgeted for. The budget for rates income therefore did not provide the true projection for revenue that would be received from rates. The actual income foregone is more than what is included in the budget.

48.9) Government Grants and Subsidies

The increase in the approved budget is largely due to the additional MIG funding received during the year. The resultant difference between the final budget and actual revenue is due to this additional MIG funding not being spent as at year end.

48.10) Contributions and donations

The amount represents assets received in-kind from Nelson Mandela Bay Municipality. At the time of budgeting, the value of these assets were not included as they were unknown.

48.11) Fines, penalties and Forfeits

When the budget for fines, penalties and forfeits were prepared, the amount was estimated based on the underlying situation of traffic vehicles being unserviceable. This matter affected the prior period and was still relevant for 2016/17. The impact of this situation was however not as severe as first budgeted, resulting in the larger than anticipated variance.

48. Budget differences (continued)
48.12) Personnel: Immaterial variance

48.13) Remuneration of Councillors: Immaterial Variance

48.14) Alternative Energy Programmes:

The variance is due to free basic payments to Eskom not being provided for during the budget process.

48.15) Depreciation and Amortisation:

During the budget process the depreciation budget was drastically reduced to in turn reduce the impact to ratepayers and consumers as a result of increased rates. The depreciation budget is seen as a non-cash budget item where there will not be a reduction to an actual revenue flow to the municipality if the budget is reduced.

48.16) Impairment loss:

The impairment loss relating to the Alexandria Sewerage Works was unforeseen and budget is not provided for unforeseen damages to PPE or Investment property.

48.17) Finance Costs:

The variance in finance costs relates to the budgeting process not taking into account the settlement of the DBSA loans which in turn resulted in a reduction of actual interest paid. Furthermore, the interest on bank overdraft was budgeted for without any related expenditure.

48.18) Lease rentals on operating lease:

In the 2016/17 financial year office machinery was acquired, replacing the need to hiring of machinery. This resulted in the reduced actual figures.

48.19) Debt Impairment

A budget estimation was undertaken of the amount of doubtful debts to provide for. The write-off of doubtful debts during the current year was closely related to the budgeted amount. However due to increased debtors and slow collections the increase in the provision in for doubtful debts was higher than anticipated.

48.20) Repairs and Maintenance

The budget relating to Repairs and Maintenance was reduced due to increased budget contraints identified during the year. The actual repairs and maintenance spent during the current year did not match the budgeted amounts due to cashflow constraints associated with lower than expected collection rates.

48.21) Bulk Purchases

The actual amounts incurred was lower than expected due to reduced demand during the year, whcih was not in line with the expected increase.

48.22) Contracted Services: Immaterial variance

48.23) Transfers and Subsidies:

The final budget amount was reduced due to savings in the anticipated amount relating to subsidies for anti-crime activities.

48.24) General Expenses:

The actual expenditure remains lower than final budgeted figures due to cashflow contraints that has impeded the ability of the municipality to fully utilise the general expenses budget.

48. Budget differences (continued)

48.25) Loss on Disposal of Assets:

At the time of the budget a nominal budget is provided for losses on disposals of assets as it not Council's intention to dispose of assets at a loss. It is also not known at the time of the budget what assets would be up for disposal. As such budget is not provided to the extent of the actual accounting losses incurred as this would have to be funded with revenue through rate increases.

48.26) Fair Value adjustments

At the time of the budget a nominal budget is provided for fair value adjustments. It is also not known at the time of the budget what the effect of external factors would be on the landfill provision estimate. As such budget is not provided to the extent of the actual fair value losses incurred as this would have to be funded with revenue through rate increases.

49. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

Financial instruments	2017	2016
Receivables from non-exchange transactions	16 075 795	12 740 416
Receivables from exchange transactions	20 970 597	20 799 126
Cash and cash equivalents	48 847 085	31 355 566
Other financial assets	119 181	141 525

The municipality holds deposits of R1 883 801 (2016: R1 749 301) from consumer debtors. No guarantees of collateral was provided to third parties.

49. Risk management (continued)

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

The municipality's interest rate risk arises from long-term borrowings. Borrowings are all issued at fixed rates which means that the municipality is not exposed to interest rate risk, as any change in interest rates will not affect the repayment terms of the long term liabilities. During 2017 and 2016, the municipality had no borrowings at variable rates.

The municipality analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the municipality calculates the impact on surplus and deficit of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies.

The municipality is however exposed to credit interest rate risk relating to repayment of interest bearing loans resulting in cash outflow as detailed below.

Cash flow interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Trade and other payables		41 429 624	-	-	-	-
Financial liabilities - DBSA	8,8% - 17%	3 198 595	3 198 595	3 198 595	3 198 595	6 817 928

Price risk

The municipality is exposed to equity securities price risk because of investments held by the municipality and classified on the consolidated statement of financial position either as available-for-sale or at fair value through surplus or deficit. The municipality is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the municipality diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the municipality.

The municipality's investments in equity of other entities that are publicly traded and are included on the JSE.

The table below summarises the impact of increases/decreases of the indexes on the municipality's post-tax surplus for the year and on equity. The analysis is based on the assumption that the equity indexes has increased/decreased by 5% with all other variables held constant and all the municipality's equity instruments moved according to the historical correlation with the index:

Post-tax surplus for the year would increase/decrease as a result of gains or losses on equity securities classified as at fair value through surplus or deficit. Other components of equity would increase/decrease as a result of gains or losses on equity securities classified a available-for-sale.

Notes to the Audited Annual Financial Statements

Figures in Rand	2017	2016

50. Water and electricity losses

	2017	2016
Material Losses		
Water	12 099 169	15 203 541
Electricity	5 552 519	6 825 232
	17 651 688	**22 028 773**

Water Losses
In 2017 the water reticulation losses were 34.4% (3 073 360 kl supplied and 2 016 664kl sold) (2016: 40.4% (3 815 420 kl supplied and 2 275 041 kl sold). In both years these losses are predominantly due to physical losses from leaks, burst pipes and reservoir overflows. Furthermore apparent losses are realised due to metering inefficiencies, meter faults, unauthorised and unmetered consumption.

Electricity Losses
In 2017, the energy losses were 13.25% (2016: 17.24%). Energy purchased was 43 660 122 kWh and 37 876 247 kWh was sold (2016: 43 982 056 kWh purchased and 36 398 465 kWh sold). These losses are predominantly due to MV and LV losses in switchgear, overheadlines, obsolete aluminium lines, underground cables and transformers. Furthermore losses are attributed to metering and meter reading losses and losses due to tampering.